MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BAC1074 – ETHICS AND GOVERNANCE

(All Sections/ Groups)

6 MARCH 2020
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **3** pages excluding cover page with **4** questions.
2. Answer **ALL** questions.
3. Write your answers in the answer booklet provided.

QUESTION 1

Part A

Ethics in finance consists of the moral norms that apply to financial activity broadly conceived. That finance be conducted according to moral norms is of great importance, not only because of the crucial role that financial activity plays in the personal, economic, political, and social realms but also because of the opportunities for large financial gains that may tempt people to act unethically.

Many of the ethical norms in finance are embodied in laws and government regulation and enforced by the courts and regulatory bodies. Ethics plays a vital role, in addition to laws and regulations, first, by guiding the formation of laws and regulations and, second, by guiding conduct in areas not governed by laws and regulations. In general, moral norms reflect the conduct in financial activity that follows from fundamental ethical principles.

Required:

(a) Briefly explain the ethical norms that apply in financial services industry. (8 marks)

(b) List some ethical issues that may arise in the finance services industry. (3 marks)

Part B

Following the large number of frauds and business failures in the later 1990s and 2000s, regulators turned the systems in place to monitor corporate behavior. This led to developing policies and procedures to strengthen the oversight and regulation of corporate governance mechanisms, including reference to the existing ethical theories in corporate governance.

Required:

(a) Briefly explain the stewardship theory and the stakeholder theory. (4 marks)

(b) Briefly describe agency theory from the perspective of board member's responsibilities. (2 marks)

(c) Identify and briefly explain the costs involved in agency theory. (6 marks)

(d) Briefly describe the TWO (2) important provisions of the Sarbanes-Oxley Act issued by the US Government in 2002. (2 marks)

[TOTAL 25 MARKS]

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QUESTION 2

Part A

Financial services firms which include banks, brokerage firms, mutual and pension funds, and financial planners, act primarily as financial intermediaries by enabling their clients to consummate transactions rather than by engaging in the transactions themselves. In acting as intermediaries, these firms become agents or fiduciaries with certain obligations or duties. In addition to the ethical issues that arise for agents and fiduciaries, financial services firms are engaged in selling various services and products to their customers or clients and thus encounter ethical issues in their sales practices and other operations.

Required:
Describe ethical issues that may arising during financial contracting in finance industry.
(10 marks)

Part B

Malaysian Code on Corporate Governance (MCCG) highlighted three essential principles in 2017 and two of it are Principle A: Board Leadership and Effectiveness and Principle B: Effective Audit and Management.

Required:
(a) Describe in detail the content of both principles. (10 marks)
(b) When preparing financial report, there are several statements required to be disclosed in the report. Identify the FIVE (5) main components in a financial statement.
(5 marks)
[TOTAL 25 MARKS]

QUESTION 3

Part A

Answer the following independent questions.

(a) Briefly explain each of the following ethical theories:
   a. Utilitarianism theory
   b. Deontology theory
   c. Justice theory
   d. Virtue theory
(8 marks)
(b) List the FIVE (5) steps in Utilitarian analysis. (10 marks)

Continued .....

Part B

Bella and Nina are office mates for the last 10 years in Belton Berhad, a telecommunication company. One day, the Chief Executive Officer of Belton Berhad informed them that a new position, General Manager of Procurement Department, had been created and that he intended to interview Bella and Nina to fill the position. Nina initially not interested in the new position, but when she heard that the salary offered would be three times her current salary, she changes her mind.

On the day of the interview, she brought to the interviewers' attention losses the company made several years ago, when Bella was in charge of the project. Even though Nina knew the losses were due to economic crisis at that time, she hoped to sabotage Bella's chances of being selected for the new position.

Required:

(a) Briefly explain the concept of Egoism theory. (2 marks)
(b) Describe Nina's action based on Egoism theory. (5 marks)

[TOTAL 25 MARKS]

QUESTION 4

Scenario A:
You are a senior manager of a bank in charge of the corporate lending department. You are responsible for the oversight of the approvals of loans, loan documentation, risk assessment, valuation and models and all other areas associated with corporate banking. You have delegated each of the tasks mentioned above to specific teams. It has recently been brought to your attention that a particular loan that did not pass the risk assessment test had been approved and that you had signed off on it. The loan is now being processed for documentation and the client had been informed that the loan was approved.

Scenario B:
You are an investment performance analyst for a fund management company. After providing client account investment performance reports to the client-facing departments, you notice the reporting system missed a trade. These reports have not been finalised and released to clients. Correcting the omission in the report will result in a huge loss for a client. This client had previously expressed concern about the under-performance of its funds under your firm's management and expressed that it may terminate the contract with your firm if these investments continue to underperform.

Required:

Based on both scenarios above, describe each situation from the perspective of integrity.
(25 marks)

[TOTAL 25 MARKS]

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